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Message Text

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E.O. 11652: GDS
TAGS: PFOR, GW, UK
SUBJECT: CHANCELLOR SCHMIDT'S TALK WITH SENATOR JAVITS
ON BRITISH FINANCIAL SITUATION

1. CHANCELLOR SCHMIDT RECEIVED SENATOR JAVITS AND ME LATE AFTERNOON OF DECEMBER 2. JAVITS WAS ACCOMPANIED BY STAFF AIDE LAKELAND AND SCHMIDT BY RUHFUS.

2. BULK OF 45-MINUTE TALK CENTERED AROUND BRITISH FINANCIAL SITUATION. JAVITS FELT, BASED ON HIS TALK WITH CALLAGHAN AND OTHERS IN LONDON A WEEK AGO, THAT UK WOULD ACCEPT IMF LOAN AND CONDITIONS, ALTHOUGH HE EXPECTED LATTER WOULD BE SOFTENED SOMEWHAT. HE SAID SOME CONDITIONS WERE NECESSARY IF SUPPORT OF US CONGRESS AND PUBLIC OPINION WOULD BE FORTHCOMING. JAVITS ADDED HIS EXPECTATION THAT IMF LOAN WOULD BE ONLY INITIAL STEP AND THAT SUBSEQUENT STEPS WOULD BE NECESSARY OVER PERIOD OF 3-5 YEARSTO HELP BRITISH. HE COUNSELED STRONGLY AGAINST TYING IMF LOAN TO SUPPORT OF STERLING BALANCES.

3. SCHMIDT WAS EXTREMELY GLOOMY IN RESPONSE. HE HAD SEEN CALLAGHAN AT HAGUE MEETING 36 HOURS AGO AND HAD FOUND HIM DESPONDENT AND APPARENTLY AT A LOSS AS TO WHAT COURSE TO FOLLOW. SCHMIDT HOPED IMF LOAN WOULD BE ACCEPTED BUT HE WAS MORE DOUBTFUL THAN JAVITS THAT
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THIS WOULD BE OUTCOME. SCHMIDT CONSIDERS CALLAGHAN'S

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POLITICAL SITUATION DESPERATE AND INDICATED HE WOULD BE RELUCTANT TO PUSH FOR TOUGH CONDITIONS FOR FEAR OF BRINGING LABOUR GOVERNMENT DOWN. IF THIS WERE TO HAPPEN AND TORIES WERE TO TAKE OVER, HE THOUGHT LATTER WOULD NOT BE ABLE TO DEAL SUCCESSFULLY WITH LABOR UNIONS AND THAT SITUATION WOULD WORSEN.HIS OWN OPINION, WHICH HE SAID HE HAD EXPRESSED TO CALLAGHAN SEVERAL WEEKS AGO, IS THAT GOVERNMENT OF NATIONAL UNITY IS REQUIRED IN UK TO COPE WITH PRESENT CRISIS, WHICH HE COMPARED IN SEVERITY TO THAT AT TIME OF DUNKIRK IN WORLD WAR II. HOWEVER, CALLAGHAN DID NOT SEEM TO FEEL THIS WAS FEASIBLE.

4. SCHMIDT ALSO DISAGREED WITH JAVITS ON STERLING BALANCES, SAYING SOME INDICATION OF FRG AND US BACK-ING FOR THEM WOULD BE HELPFUL IN RE-ESTABLISHING CONFIDENCE OF DEPOSITORS. IF THIS IS NOT DONE, SCHMIDT FEARS THERE WILL BE A RUN ON BALANCES WHICH WOULD NECESSITATE CLOSING OF UK EXCHANGES.

5. WHEN JAVITS MENTIONED THAT HE WOULD BE SEEING GISCARD IN PARIS ON DECEMBER 3, SCHMIDT SAID THAT, IF ANYTHING, GISCARD IS EVEN MORE PESSIMISTIC ABOUT UK SITUATION, PERHAPS INFLUENCED BY FACT THAT FRENCH ECONOMIC CONDITION IS FAR FROM BRILLIANT.

6. IN ADDITION TO COMMENTS ON UK, SCHMIDT ALSO TOOK TOUGH LINE REGARDING EXTENT OF AND CONDI-TIONS FOR AID TO THIRD WORLD. HE SAID HE HAD MADE THESE VIEWS CLEAR AT HAGUE MEETING OF EUROPEAN COUNCIL AND HAD NO INTENTION OF CHANGING THEM SO LONG AS HE SAW NO SIGN OF RECIPROCAL HELP FROM DEVELOPING COUN-TRIES ON ECONOMIC PROBLEMS OF COMMON CONCERN.

7. SCHMIDT SAID HE HAD BEEN IN TOUCH WITH WASHINGTON DIRECTLY CONCERNING UK SITUATION, BUT HE ASKED ME ALSO TO REPORT GIST OF HIS COMMENTS BY CABLE.

8. JAVITS SAID HE WOULD BE CALLING SCOWCROFT AT WHITE HOUSE DECEMBER 3 FROM PARIS TO REPORT PERSONALLY

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ON HIS TALK WITH CHANCELLOR.
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